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SUBJECT: JAPAN-BRAZIL ECONOMIC RELATIONS: VISIT TO JAPAN OF
BRAZILIAN MINES AND ENERGY MINISTER UEKI

SUMMARY: UEKI VISIT TO JAPAN APPARENTLY DID NOT RESULT IN JAPANESE AGREEMENT TO BRAZILIAN REQUESTS FOR EXPANDED JAPANESE IMPORTS OF SOYBEANS AND (AT HIGHER PRICES) IRON ORE, NOR WERE JAPANESE AS FORTHCOMING AS UEKI MAY HAVE WISHED RE JAPANESE PARTICIPATION IN, AND FINANCIAL SUPPORT OF, SEVERAL LARGE DEVELOPMENT PROJECTS IN BRAZIL. EVEN SO, THERE HAS BEEN FORWARD MOVEMENT ON BRAZIL'S ALUMINUM PROJECT, AND FAVORABLE DECISION ON TSUBARAO STEEL PROJECT IS EXPECTED SOON. UEKI'S EXPLANATION OF BRAZILIAN POLICIES OF WELCOMING JAPANESE INVESTMENT, COOPERATING WITH DEVELOPED COUNTRIES, AND ESCHEWING PARTICIPATION IN RESOURCES PRODUCER CARTELS WERE WELCOMED BY JAPANESE. END SUMMARY.

1. EMBOFF HAS REVIEWED WITH OFFICIALS OF MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (ARAI, AMERICAS-OCEANIA DIV.) AND FEDERATION OF ECONOMIC ORGANIZATIONS (NUKAZAWA, LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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INTERNATIONAL ECONOMIC AFFAIRS DEPT.) RESULTS OF RECENT VISIT TO JAPAN OF BRAZILIAN MINES AND ENERGY MINISTER

SHIGEAKI UEKI. DURING HIS VISIT, UEKI MET WITH PRIME MINISTER MIKI, DEPUTY PM FUKUDA, FONMIN MIYAZAWA, FINMIN OHIRA, AND INTERNATIONAL TRADE AND INDUSTRY MINISTER KOMOTO. ADDITIONALLY, HE PARTICIPATED IN TWO DAYS' OF DISCUSSIONS AT FEDERATION OF ECONOMIC ORGANIZATIONS (KEIDANREN) AND MET LEADERS OF JAPANESE ALUMINUM, STEEL, PAPER AND PULP, AND TRADING COMPANIES. ACCORDING TO ARAI AND NUKAZAWA MAJOR TOPICS AND RESULTS WERE AS FOLLOWS:

2. ALUMINUM SMELTING PROJECT: REPRESENTATIVES OF JAPANESE AND BRAZILIAN SIDES SIGNED AGREEMENT ESTABLISHING JOINT VENTURE COMPANY QTE ALBRAS UNQTE TO CONDUCT FEASIBILITY STUDY FOR ALUMINUM PROJECT. STUDY IS TO BE COMPLETED WITHIN ABOUT SIX MONTHS AND DECISION WHETHER TO PROCEED, BASED ON ANALYSIS OF RESULTS, IS EXPECTED A MONTH OR SO THEREAFTER. ACCORDING TO MITI OFFICIAL ARAI, IF RPT IF DECISION IS ULTIMATELY MADE TO PROCEED WITH PROJECT, SOME JAPANESE OFFICIAL FINANCING IS LIKELY. KEIDANREN OFFICIAL NUKAZAWA SAID THAT FEASIBILITY STUDY WAS BEING UNDERTAKEN ON ASSUMPTION BY JAPANESE SIDE THAT SOME GOJ FINANCING WILL BE PROVIDED IF--WHICH HE CHARACTERIZED AS QTE A BIG IF UNQTE--DECISION IS MADE TO PROCEED WITH PROJECT. JAPANESE INDUSTRY IS REASONABLY SURE OF SOME GOJ FINANCIAL SUPPORT THOUGH PROBABLY NOT TO THE EXTENT DESIRED, HE SAID. KEIDANREN'S THINKING ON THIS PROJECT IS TO THIS EFFECT: FACED WITH HIGHER ENERGY COSTS, JAPAN'S ENERGY INTENSIVE INDUSTRIES, IN PARTICULAR ALUMINUM, ARE NO LONGER INTERNATIONALLY COMPETITIVE AND SHOULD RELOCATE OVERSEAS. IN BRAZIL'S CASE, ITS HYDROELECTRIC RESOURCES ARE EXTENSIVE AND IT HAS PROMISED ELECTRICITY AT A GOOD PRICE TO ALUMINUM PROJECT. AN UNSPECIFIED SHARE OF THE PROPOSED PROJECT'S PRODUCTION HAS ALSO BEEN PROMISED TO JAPAN. SOME ADDITIONAL BRAZILIAN INCENTIVES SUCH AS TAX BREAKS MAY BE NECESSARY TO PERSUADE JAPANESE TO PARTICIPATE, BUT IN KEIDANREN'S VIEW IT IS PREFERABLE FOR JAPAN TO IMPORT ALUMINUM INGOTS RATHER THAN ENERGY.

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3. HYDROELECTRIC POWER DEVELOPMENT ON TOCANTINS RIVER: UEKI REQUESTED JAPANESE GOVERNMENT FINANCING IN EXCESS OF 300 MILLION DOLLARS FOR THIS PROJECT, WHICH IS DESIGNED TO SUPPLY ELECTRIC POWER TO ALUMINUM PROJECT. ACCORDING TO ARAI, MITI MINISTER KOMOTO EXPLAINED IN RESPONSE THAT IT WOULD BE DIFFICULT FOR JAPAN TO PROVIDE EITHER CONCESSIONAL OR COMMERCIAL CREDITS FOR THIS PROJECT TO RELATIVELY DEVELOPED COUNTRY SUCH AS BRAZIL, BUT HE NEVERTHELESS PROMISED TO STUDY BRAZILIAN REQUEST IN QTE FORWARD LOOKING WAY UNQTE. ACCORDING TO NUKAZAWA,

UEKI WAS QTE NOT SATISFIED UNQTE WITH JAPANESE RESPONSE, BUT WITHIN GOJ FINANCE MINISTRY IN PARTICULAR FEELING IS STRONG THAT GOJ AID LOAN SHOULD NOT BE MADE FOR THIS PROJECT AND THAT BRAZIL WILL OBTAIN NECESSARY FINANCING AND EQUIPMENT ELSEWHERE IN EVENT JAPAN DOES NOT PROVIDE LOAN.

4. TSUBARAO STEEL MILL. ACCORDING TO ARAI, FEASIBILITY STUDY FOR THIS PROJECT IS IN FINAL STAGE AND JAPANESE ARE NOW NEGOTIATING WITH BRAZILIANS RE INCENTIVES AND/OR INFRASTRUCTURE INVESTMENT TO BE PROVIDED BY BRAZILIAN SIDE. DECISION IS EXPECTED TO BE REACHED BY SUMMER. ACCORDING TO NUKAZAWA, PROJECT IS QTE HIGHLY LIKELY UNQTE TO BE GIVEN GREEN SIGNAL WITHIN COUPLE OF MONTHS, BUT BRAZIL QTE MUST UNQTE OFFER TAX AND OTHER INCENTIVES TO JAPANESE. ITAQUI STEEL PROJECT IS QTE LIKELY UNQTE TO BE REALIZED SOMEWHAT AFTER TSUBARAO, NUKAZAWA SAID.

5. IRON ORE EXPORTS TO JAPAN. BRAZIL WISHES TO EXPAND AND RAISE PRICES OF IRON ORE EXPORTS TO JAPAN. JAPANESE ARE RESISTING PRICE RISES, STRESSING THAT BRAZILIAN ORE MUST BE COMPETITIVELY PRICED CIF JAPAN WITH ORE FROM OTHER SOURCES (INDIA AND AUSTRALIA) AND THAT IN PRESENT RECESSION JAPANESE INDUSTRY IN NO POSITION TO RAISE PRICES OF FINAL PRODUCTS OR ACCEPT PRICE INCREASES IN RAW MATERIAL SUPPLIES. ACCORDING TO NUKAZAWA, BOTH

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SIDES MAINTAINED THEIR POSITIONS BUT, PERHAPS, DEEPENED THEIR UNDERSTANDING OF THE OTHER'S VIEWS.

6. SOY BEAN EXPORTS TO JAPAN. UEKI DID NOT MEET GOJ AGRICULTURE MINISTER BUT DID DISCUSS WITH TRADING COMPANIES BRAZIL'S WISH TO EXPAND SOY BEAN EXPORTS TO JAPAN. ACCORDING TO NUKAZAWA, TRADING COMPANIES WERE QTE PRESSURIZED UNQTE BUT DID NOT AGREE TO BRAZILIAN REQUEST, FOR TWO MAJOR REASONS: A) PRICE OF BRAZILIAN SOYBEANS (COUNTING TRANSPORTATION) IS TOO HIGH AND B) JAPAN IS UNDER SOME PRESSURE FROM CHINA TO EXPAND SOY BEAN IMPORTS FROM THAT SOURCE. EVEN THOUGH JAPAN IS NOT ANXIOUS TO INCREASE IMPORTS FROM BRAZIL, SAID NUKAZAWA, JAPAN WILL ASSIST BRAZIL IN EXPANDING SOYBEAN PRODUCTION. (IN THIS CONNECTION, JAPAN'S INTERNATIONAL COOPERATION AGENCY IS LEADING A GOVERNMENT/PRIVATE MISSION WHICH LEFT FOR BRAZIL FEB. 11 TO STUDY HOW JAPAN MIGHT COOPERATE IN AGRICULTURAL DEVELOPMENT PROJECTS IN BRAZIL'S CERRADO AREA.) RATIONALE IS AS FOLLOWS: JAPAN WISHES TO CONTINUE TO PURCHASE AGRICULTURAL PRODUCTS INCLUDING SOYBEANS FROM THE UNITED STATES AND WISHES TO CONTRIBUTE TO THE SECURITY OF JAPANESE ACCESS TO AMERICAN LIMITED OFFICIAL USE

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SUPPLIES. THEREFORE, JAPAN WILL ASSIST OTHER COUNTRIES TO RAISE THEIR OUTPUT SO THAT NEW CUSTOMERS OR CUSTOMERS PURCHASING ON AN IRREGULAR BASIS--SUCH AS RUSSIA--CAN AT LEAST PARTIALLY FILL THEIR ORDERS FROM SOURCES OF SUPPLY OTHER THAN THE UNITED STATES.

7. NORTH-SOUTH RELATIONS AND JAPAN-BRAZIL RELATIONS. ACCORDING TO NUKAZAWA, UEKI STRESSED THAT RESOURCE RICH BRAZIL WOULD NOT TRY TO EMULATE OPEC BY JOINING RESOURCES PRODUCER CARTELS, SPECIFICALLY IRON ORE AND BAUXITE CARTELS. BRAZILIAN POLICY, HE SAID, IS TO COOPERATE WITH DEVELOPED COUNTRIES. IN BRAZILIAN VIEW, SAID UEKI, JAPAN HAS VESTED INTEREST IN BRAZIL'S ADHERING TO THIS POLICY. BRAZIL HAS RESOURCES. BRAZIL WELCOMES JAPANESE INVESTMENT IN GENERAL AND IN RESOURCES (INCLUDING OIL) DEVELOPMENT IN PARTICULAR. JAPAN'S AND BRAZIL'S ECONOMIES ARE PERFECTLY COMPLEMENTARY. THEREFORE, JAPAN SHOULD COOPERATE WITH BRAZIL RE DEVELOPMENT, AS HELPING BRAZIL ALSO HELPS JAPAN. UEKI STRESSED CONCEPT OF MUTUALLY BENEFICIAL QTE COOPERATION UNQTE RATHER THAN QTE AID UNQTE WHICH CONNOTES ONE-SIDED DONOR-RECIPIENT RELATIONSHIP. JAPANESE BASICALLY

AGREE WITH UEKI'S ANALYSIS, SAID NUKAZAWA, BUT HAD TO STRESS CONSTRAINTS ON JAPAN'S FINANCIAL ASSISTANCE TO BRAZILIAN DEVELOPMENT PLANS. THIS CAME AS SURPRISE TO UEKI WHO, SAID NUKAZAWA, HAD REGARDED JAPAN AS RICH COUNTRY FULLY CAPABLE OF PROVIDING DESIRED FINANCIAL SUPPORT. JAPANESE FEEL UEKI GAINED BETTER UNDERSTANDING OF JAPAN'S POSITION, BUT ARE NOT SURE HE WAS CONVINCED AND SUSPECT HE WAS DISAPPOINTED THAT JAPANESE WERE NOT MORE FORTHCOMING.

8. ACCORDING PRESS, UEKI CHARACTERIZED TALKS IN JAPAN AS QTE VERY SUCCESSFUL UNQTE. REPORTEDLY, HE SAID BRAZIL WISHES TO DEEPEN ECONOMIC TIES WITH OTHER NATIONS, INCLUDING JAPAN, SPECIFICALLY BY ACCEPTING THEIR INVESTMENTS IN BRAZIL, BUT THAT BRAZIL COULD SURVIVE WITHOUT JAPAN JUST AS JAPAN COULD SURVIVE WITHOUT HAVING TIES WITH BRAZIL. BRAZIL COULD PROCEED WITH ITS DEVELOPMENT PROJECTS ALONE OR WITH COOPERATION OF U.S. OR EUROPEAN COUNTRIES, AND MAY TURN TO LATTER LIMITED OFFICIAL USE

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IF JAPAN IS UNWILLING TO COOPERATE IN LARGE SCALE PROJECTS. RE SOYBEANS, UEKI REPORTEDLY SAID THAT JAPAN COULD BENEFIT GREATLY IF IT FREES ITSELF FROM PRESENT HEAVY DEPENDENCE ON AMERICAN SOY BEAN SUPPLIES. RE RESOURCES CARTELS, HE REPORTEDLY SAID BRAZIL WOULD NOT JOIN MEETING ONLY OF PRODUCERS BUT WOULD PARTICIPATE IN CONFERENCES OF EXPORTERS AND IMPORTERS AIMING AT SMOOTH DISTRIBUTION AT REASONABLE PRICES THROUGH ADJUSTMENT OF DEMAND AND SUPPLY.

9. EMBASSY COMMENT: WILLINGNESS OF JAPANESE PM AND FOUR CABINET MINISTERS TO MEET WITH UEKI IS MORE INDICATIVE OF IMPORTANCE WHICH JAPANESE ATTACH TO THEIR RELATIONS WITH BRAZIL THAN JAPANESE CAUTION IN COMMITTING THEMSELVES TO MEET VARIOUS BRAZILIAN REQUESTS. AS JAPANESE AND WORLD ECONOMIES REVIVE, AND AS RESULTS OF CAREFUL JAPANESE STUDIES BECOME AVAILABLE, JAPANESE WILL IN DUE COURSE COMMIT THEMSELVES TO THOSE TRADE AND INVESTMENT ARRANGEMENTS WITH BRAZIL WHICH THEY REGARD AS BEING, IN A BROAD SENSE, MUTUALLY BENEFICIAL. END COMMENT.
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